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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
South Florida Water Management District
West Palm Beach, Florida

We have audited the accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance of South Florida Water Management District, as of and for the year ended September 30, 2001. This schedule is the responsibility of South Florida Water Management District's management. Our responsibility is to express an opinion on this schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General of the State of Florida. Those standards, OMB Circular A-133, and Chapter 10.550, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether the schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedule presentation. An audit also includes assessing the accounting principles used and the significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule of Expenditures of Federal Awards and State Financial Assistance presents fairly, in all material respects, the expenditures of federal awards and state financial assistance of South Florida Water Management District as of and for the year ended September 30, 2001, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 15, 2002, on our consideration of South Florida Water Management District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Grau & Company, P.A.
Certified Public Accountants

Handwritten signature in black ink, appearing to read "Grau & Co., P.A." with a stylized flourish.

February 15, 2002

Haas, Diaz & Co.
Certified Public Accountants

Handwritten signature in black ink, appearing to read "Haas Diaz & Co." with a stylized flourish.

February 15, 2002

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2001**

	<u>CFDA/ CSFA Number</u>	<u>Grant Number</u>	<u>Expenditures Recognized</u>
I. CASH FEDERAL FINANCIAL ASSISTANCE			
<u>U.S. Department of Interior</u>			
Everglades Watershed Restoration	*	LWCF-1	\$ 36,622,975
Land Acquisitions	*	L-2	4,700,000
Frog Pond Land Acquisition			
Stormwater Treatment Area #1 East	*	STA-1E	18,642
Land Acquisitions			
East Coast Buffer / Water Preserve Area	*	FB1	46,499
Land Acquisitions	*	14-48-98210-99-G278	383,605
Kissimmee Prairie Ecosystem			95,235
Critical Ecosystems Grant	15.808	98HQAG2209	<u>41,866,956</u>
Subtotal			
<u>U.S. Army Corps of Engineers</u>			
Pass-through State of Florida Department of Environmental Protection			
Aquatic Plant Control Program	12.100	DACW17-85-H-0020	<u>7,159,063</u>
<u>Federal Emergency Management Agency</u>			
Pass-through State of Florida Department of Community Affairs			
Public Assistance Grant	83.544	01RM-L5-13-00-16-054	284,215
Disaster Housing Program	83.545	98RM-M9-13-00-16-180	1,261,957
Hazard Mitigation Grant	83.548	01HM-M5-13-00-15-002	65,530
Hazard Mitigation Grant	83.548	25HM-M5-13-00-15-004	<u>402,140</u>
Subtotal			<u>2,013,842</u>
Pass-through State of Florida Department of Environmental Protection			
Consolidated Research Grants	66.500	R82796201-0	262,361
Consolidated Research Grants	66.500	CR-827565-01-0	120,956
L.O. Sediment Removal Feasibility Study	66.606	X984816-99-0	50,000
Water Quality Protection W. C-11 Basin	66.606	X984461-98-0	3,606
Water Pollution Control	66.419	C-11730	127,521
Water Quality Management Planning	66.454	C-11731	46,966
Nonpoint Source Implementation Grants	66.460	WM776	500,000
Nonpoint Source Implementation Grants	66.460	SP524	20,250
Nonpoint Source Implementation Grants	66.460	C-12872	<u>31,355</u>
Subtotal			<u>1,163,015</u>
<u>National Oceanic and Atmospheric Agency</u>			
Water Monitoring FL Bay – Mercury	*	40GENF100101	9,406
Pass-through State of Florida Department of Environmental Protection			
Unallied Industry Projects	11.452	MR249	<u>198,000</u>
Subtotal			<u>207,406</u>
<u>U.S. Department of Agriculture</u>			
Loxahatchee Slough/Sandhill Crane	*	C-12568	<u>67,496</u>
Total Cash Federal Financial Assistance			<u>52,477,778</u>

Continued

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2001
(continued)**

	<u>CFDA/ CSFA Number</u>	<u>Grant Number</u>	<u>Expenditures Recognized</u>
II. NON-CASH FEDERAL FINANCIAL ASSISTANCE			
<u>U.S. Army Corps of Engineers</u>			
Cost Sharing Projects	*	Various	<u>16,000,691</u>
Subtotal Non-Cash Federal Financial Assistance			<u>16,000,691</u>
Total – All Federal Financial Assistance			<u>68,478,469</u>
III. STATE FINANCIAL ASSISTANCE			
<u>Department of Environmental Protection</u>			
Surface Water Restoration and Wastewater Projects			
Various projects	37.039	APP1196SP455	121,866
Lake Okeechobee At Risk Utilities	37.039	SP598	500,000
South Dade Storm Water Treatment Ph. II	37.039	SP504	<u>123,000</u>
Subtotal			<u>744,866</u>
St. Lucie River Initiative			
Ten Mile Creek Land Acquisition	37.027	APP1220ASP558	1,000,000
C-24 North Canal Bank Restoration	37.027	APP1220ASP565	70,433
C-23 Canal Maintenance, Dredging Ph. I	37.027	APP1220ASP564	<u>310,248</u>
Subtotal			<u>1,380,681</u>
Water Management Dist – Land Acquisitions			
Lake Okeechobee Swap G	37.022	Res 2000-86 1591G SFW1	632,460
Grassy Island Ranch	37.022	SFW11	8,500,000
Indian Trail Park	37.022	M9001	<u>21,437</u>
Subtotal			<u>9,153,897</u>
<u>Department of Agriculture and Consumer Services</u>			
Cost Agreement: Mobile Irrigation Lab	*	C-9120	<u>63,250</u>
Total – All State Financial Assistance			<u>11,342,694</u>
Total – Federal and State Financial Assistance			<u>\$79,821,163</u>

*Catalog number was unavailable

The accompanying notes are an integral part of this schedule.

**SOUTH FLORIDA WATER MANAGEMENT DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE
SEPTEMBER 30, 2001**

1. SCOPE OF AUDIT PURSUANT TO OMB CIRCULAR A-133 AND CHAPTER 10.550

Federal Awards Programs

All federal grant operations of South Florida Water Management District (the "District") are included in the scope of the Office of Management and Budget ("OMB") Circular A-133 audit (the "Federal Single Audit"). The Federal Single Audit was performed in accordance with the provisions of the OMB Circular A-133 Compliance Supplement. Compliance testing of requirements, as described in the Compliance Supplement, was performed for the grant programs noted below. These programs represent federal award programs and other grants with fiscal year 2001 cash and noncash expenditures in excess of \$2,054,354 (Type A programs) and ensure coverage of at least 50 percent of Federally granted funds. Actual coverage is approximately 94 percent of total cash and noncash federal award program expenditures.

<u>Major Federal Award Program Description</u>	<u>Fiscal 2001 Expenditures</u>
Everglades Watershed Restoration	
Land Acquisitions	\$36,622,975
Frog Pond Land Acquisition	4,700,000
Cost Sharing Projects	16,000,691
Aquatic Plant Control	<u>7,159,063</u>
Total	<u>\$ 64,482,729</u>

State Financial Assistance Projects

State financial assistance is subject to audit in accordance with Chapter 215.97, Florida Statutes, which prescribes the requirements for an audit under the Florida Single Audit Act. All State financial assistance projects of the District are included in the scope of the Florida Single Audit. Compliance testing of all requirements, as described in the State Compliance Supplement, was performed for the grant programs noted below. The programs represent all State financial assistance with fiscal 2001 cash and noncash expenditures in excess of \$340,281 (type A projects) that ensure coverage of at least 50 percent State financial assistance. Actual coverage is 99 percent of total State financial assistance projects.

<u>Major State Financial Assistance Project Description</u>	<u>Fiscal 2001 Expenditures</u>
Surface Water Restoration and	
Wastewater Projects	\$ 744,866
St. Lucie River Initiative	1,380,681
Water Management Districts – Land Acquisition	<u>9,153,898</u>
Total	<u>\$11,279,445</u>

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance includes all expenditures of federal grants and state financial assistance to the District during the fiscal year ended September 30, 2001. This schedule has been prepared on the modified accrual basis of accounting.

3. REPORTABLE CONDITION AND FINDINGS OF NONCOMPLIANCE

There were no reportable conditions or findings of noncompliance identified in connection with the fiscal year 2001 Federal or State Single Audits.

4. FEDERAL ASSISTANCE RECEIVED FOR PRIOR YEAR LAND ACQUISITION

In April 1996, as a part of the C-111 project, the District acquired approximately 5,215 acres of land in the Everglades Watershed area that were deemed essential to facilitate the restoration of the natural environment. The total cost of the acquisition was \$43,000,000 and was initially funded from the State of Florida Preservation 2000 funds and the Conservation and Recreation Lands Trust funds. In October 2000, the District entered into the Frog Pond Project Land Acquisition (L-2) agreement with the U.S. Department of Interior (DOI) to obtain reimbursement for a portion of the costs incurred in acquiring Frog Pond. Under the terms of the agreement, the District was reimbursed 25 percent, or \$4,700,000, of a total acquisition price of \$18,800,000 related to tracts located within Frog Pond. The remaining 75 percent, or \$14,100,000, was treated as matching funds by the District. Because the District received the DOI grant monies during the fiscal year, the \$4,700,000 reimbursement was included on the Schedule of Expenditures of Federal Awards for the year ended September 30, 2001, and was subject to Federal Single Audit procedures pursuant to OMB A-133.

5. COST SHARING PROJECTS

Prior to 1998, the District entered into various project cooperation agreements with the U.S. Army Corps of Engineers (COE) for programs referred to as "critical restoration projects". The projects range from Everglades Restoration feasibility studies to canal and pump station construction and repair. The programs are typically long-term in nature and often span several years. The terms of the cooperative agreements require the District to provide matching expenditures ranging from 12.8% to 50% of the total project cost. For some of the agreements, the District is allowed to provide half of the match through in-kind contributions. These in-kind contributions generally consist of personnel-related costs, such as engineering services provided by District employees.

At the beginning of each fiscal year, COE notifies the District of the anticipated cash contributions. Because the COE is responsible for administering the projects, the District's role is primarily to provide the monetary and in-kind matching requirements. District transfers are made via deposits into an escrow account. Contracts awarded through COE and the related expenditure documentation are not submitted to the District. Rather, supporting documentation for all related transactions is maintained by COE, as expenditures do not require the preapproval of the District.

The amount reported as non-cash federal financial assistance on the Schedule of Expenditures of Federal Awards and State Financial Assistance is COE's share of expenditures during the fiscal year reported to the District.

6. SUBSEQUENT EVENTS

On January 14, 2002, the U.S. Department of the Interior (DOI) notified the District that it was temporarily discontinuing funding under the LWCF-1 Federal Grant, Addendum 2, Corkscrew Regional Ecosystem Watershed (CREW). The DOI was concerned that the District was not providing its share of matching funds required by the grant agreement. At September 30, 2001, the District had provided approximately \$2.1 million and the Federal government had provided approximately \$3.5 million. The District is required to match 100% of the Federal funds. Federal funding has been discontinued until the District substantially increases its cost sharing.

7. CONTINGENCIES

Several lawsuits have been filed against the District regarding land acquisitions. Management does not consider that the litigation has any impact on the Schedule of Expenditures of Federal Awards and State Financial Assistance.



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**SOUTH FLORIDA WATER MANAGEMENT DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2001**

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the Schedule of Expenditures of Federal Awards and State Financial Assistance of South Florida Water Management District.
2. One reportable condition relating to the audit of the Schedule of Expenditures of Federal Awards and State Financial Assistance is reported in the independent auditors' report on compliance and on internal control over financial reporting based on an audit of the Schedule of Expenditures of Federal Awards and State Financial Assistance performed in accordance with *Government Auditing Standards*. The reportable condition is not considered to be a material weakness.
3. No instances of noncompliance material to the Schedule of Expenditures of Federal Awards and State Financial Assistance of South Florida Water Management District were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal award programs and major state projects are reported in the independent auditors' report on compliance with requirements applicable to each major federal program and state financial assistance project and internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General.
5. The auditors' report on compliance for the major federal award programs and state financial assistance for South Florida Water Management District expresses an unqualified opinion on federal awards programs and state financial assistance projects.
6. Audit findings relative to the major federal award programs and state financial assistance projects for South Florida Water Management District are reported in Parts C and D, respectively, of this Schedule, as applicable.

7. The programs tested as major programs include:

Federal Program	<u>CFDA #</u>
Everglades Watershed Restoration	*
Cost Sharing Projects	*
Aquatic Plant Control	12.100
 State Project	 <u>CSFA #</u>
Statewide Surface Water Restoration and Wastewater Projects	37.039
St. Lucie River Initiative	37.027
Water Management Districts – Land Acquisition	37.022

*Federal catalog number was unavailable.

8. South Florida Water Management District was determined to be a low-risk auditee for Federal Single Audit purposes. As of September 30, 2001, State of Florida guidelines did not allow designations of low risk for Florida Single Audit purposes.
9. The threshold for distinguishing Type A and B programs was \$2,054,354 for Federal financial assistance and \$340,281 for State financial assistance.

B. FINDINGS – AUDIT OF SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

FINDING 01-1 -- Controls over Recording and Reporting of Federal Awards and State Financial Assistance

All Federal Awards and State Financial Assistance

Reportable Condition

Questioned Costs: None noted

Criteria

Sound grant management procedures have a base of strong internal controls which provide reasonable assurance that grant activities are being properly monitored, recorded, and reported.

Condition

During our audit, we noted the following control deficiencies in the District's management of and accounting for grant revenues and expenditures:

- The District has insufficient written procedures establishing requirements for recording and managing grant activities and for the creation of activity codes. Because of this, grant accounting procedures are occasionally inconsistently applied. Further, we noted that account codes had been created without the knowledge of the Finance Department. As a result, grant reports cannot be efficiently prepared. It is necessary to refer to contracts, journal vouchers, and other documents, in addition to activity reported in the accounting system in order to prepare a schedule of grant expenditures.
- The District does not have a centralized tracking mechanism in place to document all expected grant revenues. As a result, certain state appropriations had not been expended for several years because District personnel were not aware that funds had been received for specific acquisitions or projects.
- No individual has been assigned overall responsibility for monitoring awarded grants, obligated grant funds, or expenditures charged to individual grants. The lack of assigning overall responsibility to an individual could result in grant funds being over-obligated and unreimbursable expenditures being incurred.
- Communication among District departments and with grantors is limited and does not ensure that grant activities are fully and accurately accounted for and reported. We noted that:
 - The Procurement Department did not forward copies of certain contracts to the Finance Department.
 - Supporting schedules for certain land acquisitions were incorrectly stated due to lack of communication between the financial analyst and the program administrator.
 - The Schedule of Expenditures of Federal Awards and State Financial Assistance provided to the auditors contained numerous misclassifications, incorrectly reported amounts and programs, and several minor errors.
 - Project managers were not always coordinating with the Finance Department to ensure the proper recording of grant activity. For example, project managers would not always respond to queries regarding program activity or project status.

Perspective

The District administered approximately \$80 million of grants in the 2001 fiscal year. Grant activity is expected to increase significantly when the additional Everglades Restoration grants are awarded. Historically, the control environment at the District has appeared to discourage the implementation of strong controls over grant activities and effective communication among District personnel. The impact of the weak controls has grown as the District's grant-related activities have increased. However, current management appears to be creating an environment that is conducive to making needed changes.

Effect

The lack of assignment of overall grant responsibility, thorough grant documentation, and accurate accounting, could result in the District not receiving all available reimbursements, exceeding grant expenditure limitations, violating grant terms, and possibly losing future funding.

Recommendation

We recommend that the District take immediate action to coordinate grant-related activities and develop and enforce thorough written grant accounting procedures. These procedures should define required supporting documentation, establish internal and external communication requirements, provide detailed guidance on recording of grant transactions, assign specific grant responsibilities to District personnel, and provide for monitoring of compliance with controls.

Management's response

The District concurs with the comment. Recently the District restructured the treasurer position to include oversight responsibility for revenue management, including grant activities. The new treasurer will be working with Accounting staff and project managers to implement processes to identify grant projects early on and set up the accounting and reporting requirements for each grant activity. The purpose of this process is to open the lines of communication at the beginning of the grant activity and reduce the potential for misunderstandings and erroneous recording of grant transactions. In addition, the District is assembling a multi-disciplinary team to develop a comprehensive set of processes which will guide staff in administering grants and state appropriations and emphasize the necessity for good communications. A second initiative will be developing over the next two years to install a grants management system as part of the installation of an ERP financial system. This will greatly enhance our ability to track and report on grant activities.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None noted

D. FINDINGS AND QUESTIONED COSTS – MAJOR STATE FINANCIAL ASSISTANCE PROJECTS

None noted

E. SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Schedule is not provided because there were no prior year audit findings.



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND STATE FINANCIAL ASSISTANCE PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Governing Board of
South Florida Water Management District

We have audited the Schedule of Expenditures of Federal Awards and State Financial Assistance of South Florida Water Management District, as of and for the year ended September 30, 2001, and have issued our report thereon dated February 15, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether South Florida Water Management District's Schedule of Expenditures of Federal Awards and State Financial Assistance is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of Schedule of Expenditures of Federal Awards and State Financial Assistance amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Florida Water Management District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule of Expenditures of Federal Awards and State Financial Assistance and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect South Florida Water Management District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Schedule of Expenditures of Federal Awards and State Financial Assistance. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Finding No. 01-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the Schedule of Expenditures of Federal Awards and State Financial Assistance being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions and, accordingly would not disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to management of the South Florida Water Management District in a separate letter dated February 15, 2002.

This report is intended for the information and use of the Governing Board, the District's management, the Auditor General of the State of Florida, and Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Company, P.A.
Certified Public Accountants



February 15, 2002

Haas, Diaz & Co.
Certified Public Accountants



February 15, 2002



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**Independent Auditors' Report on Compliance
and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed
in Accordance With *Government Auditing Standards***

Members of the Governing Board of the
South Florida Water Management District:

We have audited the basic financial statements of the South Florida Water Management District (the District), a component unit of the State of Florida, as of and for the year ended September 30, 2001, and have issued our report thereon dated February 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

COMPLIANCE

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the District in a separate letter dated February 8, 2002.



This report is intended solely for the information and use of the Governing Board and management of the South Florida Water Management District, and federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 8, 2002



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM
AND EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
AND CHAPTER 10.550, RULES OF THE AUDITOR GENERAL**

To the Governing Board of
South Florida Water Management District

Compliance

We have audited the compliance of South Florida Water Management District with the types of federal compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the state compliance requirements described in the Executive Office of the Governor's State Projects Compliance Supplement, that are applicable to each of its major federal programs and state financial assistance projects for the year ended September 30, 2001. South Florida Water Management District's major federal programs and major state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and state financial assistance projects is the responsibility of South Florida Water Management District's management. Our responsibility is to express an opinion on South Florida Water Management District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*; and Chapter 10.550, Rules of the Auditor General. Those standards, OMB Circular A-133; and Chapter 10.550, Rules of the Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs or major state financial assistance projects occurred. An audit includes examining, on a test basis, evidence about South Florida Water Management District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on South Florida Water Management District's compliance with those requirements.

In our opinion, South Florida Water Management District complied, in all material respects with the requirements referred to above that are applicable to each of its major federal programs and major state financial assistance projects for the year ended September 30, 2001.

Internal Control Over Compliance

The management of South Florida Water Management District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs and state financial assistance projects. In planning and performing our audit, we considered South Florida Water Management District's internal control over compliance with requirements that could have a direct and material effect on a major federal program or major state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program or major state financial assistance project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the Governing Board, the District's management, the Auditor General for the State of Florida, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Grau & Company, P.A.
Certified Public Accountants



February 15, 2002

Haas, Diaz & Co.
Certified Public Accountants



February 15, 2002